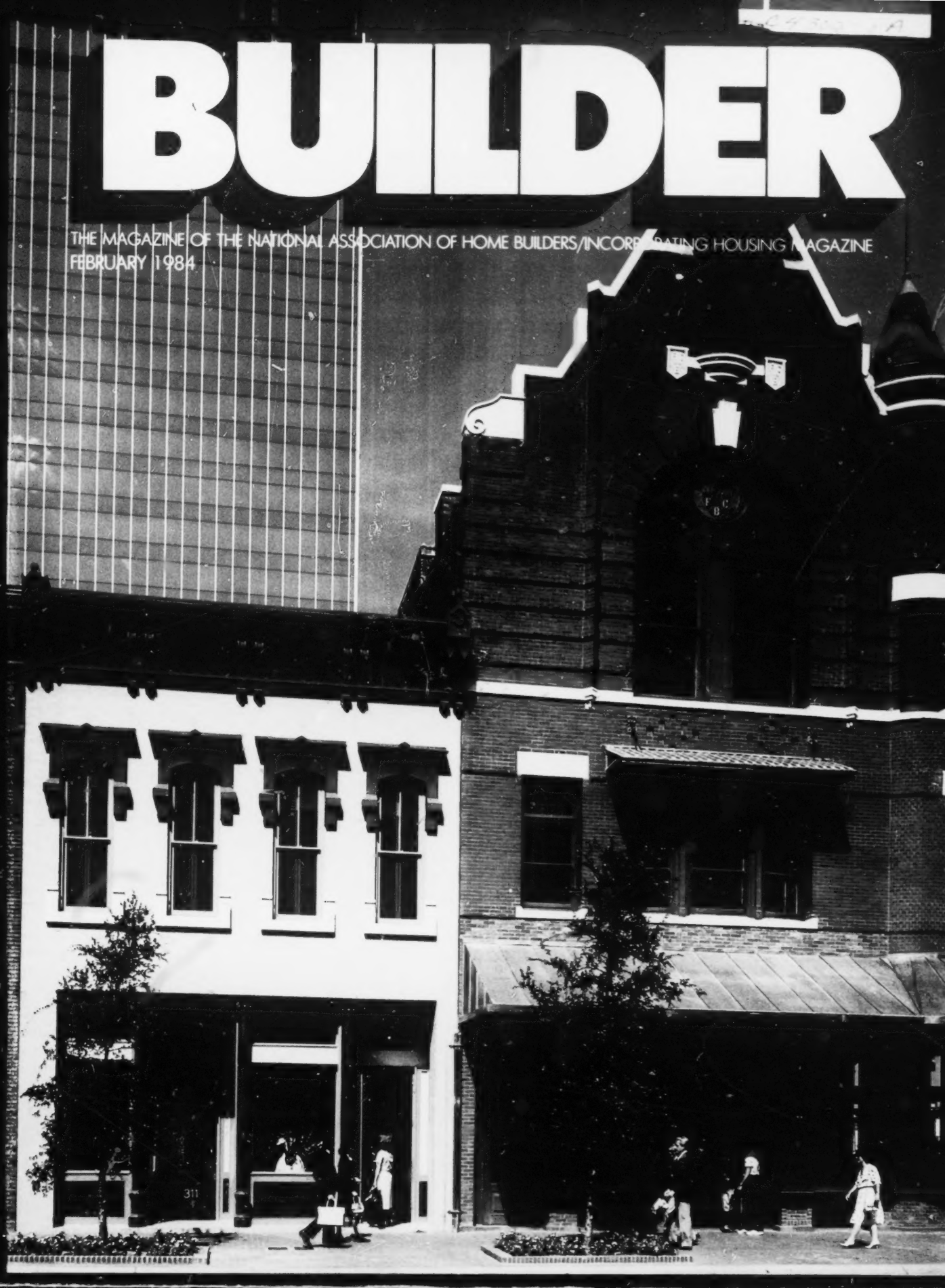
BUILDER
THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS/INCORPORATING HOUSING MAGAZINE
FEBRUARY 1984



NEWS

STAHL

continued from page 42

Although the NFPA is not as well known or as large as NAHB, Stahl said he doesn't look at his new post as any less prestigious. "I don't see it that way at all," he said. "It presents a new kind of management challenge.

"But I'm not moving very far away from the housing industry in either a physical or an issue sense. Remember, housing is the largest consumer of forest products."

Lew Sichelman, a syndicated housing columnist

ECONOMY

HOUSING WAS MORE AFFORDABLE LAST YEAR

Housing affordability made the greatest one-year improvement last year since the end of World War II, according to a study by Advance Mortgage Corp.

Including taxes and insurance, the average mortgage payment on a conventionally financed new house purchased in 1983 dropped to 34 percent of average household income compared with 43 percent in 1982 and 42 percent in 1981, the study found.

But the payment-to-income ratio is still high. Prior to 1979, it was never more than 30 percent.

Affordability improved last year because interest rates fell, real income was up and the average sales price of housing increased only 6 percent, Advance Mortgage noted.

The most affordable market last year was St. Louis, thanks to relatively low house prices and relatively high incomes. The most expensive market was the New York City area.

Declining house prices increased affordability in Miami-Fort Lauderdale and Tampa-St. Petersburg, which suffer from an overbuilt condo market, and in Portland, Ore., where unemployment is high.

Affordability also improved significantly in San Diego and in the San Francisco Bay area due to above-average gains in income and below-average increases in the already very high home prices.

Denver was the only market where affordability declined. The reason: Prices skyrocketed 40 percent, to $119,300.

HOUSING AFFORDABILITY

Mortgage payment-to-income ratios in major markets for conventionally financed houses[1]

MARKET	1983	1982
Atlanta	33.6%	42.3%
Boston	34.6	37.1
Chicago	30.4	33.5
Cleveland	25.7	31.8
Dallas-Fort Worth	32.2	34.6
Denver	36.5	32.0
Houston	30.1	32.7
Los Angeles-Orange and Riverside counties	39.1	47.7
Miami-Fort Lauderdale	29.4	41.9
Minneapolis-St. Paul	27.7	35.0
New York City area	41.4	46.0
Phoenix	30.7	40.5
San Diego	39.8	52.8
San Francisco Bay area	36.5	48.9
Washington, D.C.	37.3	42.1

[1]Mortgage payment includes property taxes and insurance; statistics include new and resale homes.

Source: Advance Mortgage Corporation

The increased use of buy-downs and adjustable rate mortgages helped blunt the impact of higher interest rates in the second half of last year, the study found. By the fourth quarter, buy-downs on fixed-rate loans averaged more than 1 point, Advance said. Also in the fourth quarter, for the first time since the 1920s, more than half the mortgages closed were ARMs.

Affordability improvements in the rental market were less evident than in the for-sale market. Rent increases last year continued to outpace inflation. Rents climbed 5.5 percent versus a 3.2 percent rise in the CPI.

The largest average rent increases were 9.5 percent in the San Francisco Bay area and 8 percent in San Diego and Dallas. The smallest rent increase was 1 percent in Seattle.

FINANCE

GUARANTEED RATES ARE BACK

Now that interest rates are relatively stable and expected to remain that way for the rest of the year, long-term mortgage commitments with guaranteed rates are coming back into style.

A number of secondary mortgage market participants are offering or planning to offer such commitments, including the Federal National Mortgage Association (Fannie Mae), NAHB's Home Mortgage Access Corp. (HOMAC) and Residential Funding Corp.

Generally, all the programs offer commitments up to eight or nine months. They provide a maximum rate at the time the commitment is obtained, but if rates fall by the time the commitment is converted from optional to mandatory delivery, builders and lenders get the lower rate.

However, guaranteed interest rates don't come cheap. Commitment fees reflect the length of commitments as well as the level of rate protection.

Fannie Mae is testing an eight-month standby commitment that allows builders and lenders to lock in the interest rate at the time the commitment is obtained.

If rates drop during the eight months, builders can obtain the lower rate by converting to a commitment that makes delivery of the mortgages mandatory. Alternatively, builders and lenders can decide what interest rate they want at the outset. The greater the rate protection, the higher the fee.

The eight-month period was selected to match the time a builder needs to construct a house, said Robert Mylod, president of Fannie Mae. "With this commitment, the builder can sell the house, fix the interest rate and then build the house."

Fannie Mae can offer this rate protection, Mylod said, "because we now have a systematic method of hedging interest rate risk."

Because fees are higher than those of Fannie Mae's standard mandatory commitment program, he said, "consumers could end up paying more in fees, but they have the certainty of knowing what their interest rate will be."

The commitment was sold during late January and early February on a test basis. It can be used for 30-year, fixed-rate loans and 1, 3 and 5-year adjustable rate mortgages.

Beginning this spring, HOMAC plans to offer commitments with guaranteed rates for two, four, six and eight months. As with Fannie Mae's program, the rate is locked in when the commitment is obtained but if market rates subsequently decline the commit-

see RATES page 50

VOLUME 7, NUMBER 2 ■ FEBRUARY 1984

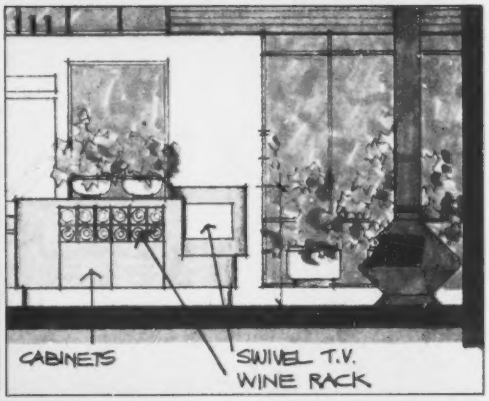
BUILDER

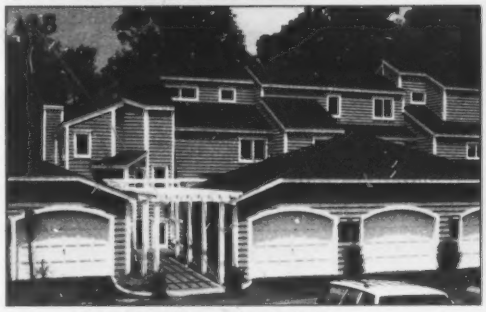
VIEWS
5 About Building
20 Money
26 Washington
32 Marketing

DEPARTMENTS
11 Outlook
126 Sketchbook
135 NAHB Report
165 Ad Index
166 Mail

33-56 Advertising insert: Kitchen & Bath Color & Design Guide

NEWS
59 So long, Section 8
64 Voucher, other programs poor substitutes for Section 8
66 Drywall costs rage upward, shortage eases
72 Fannie Mae backs bond for California project
72 FmHA: same funding, new rules
84 FHA rate change has little effect
84 RATE-CAP loan sweeps Rochester





90—CELEBRATING THE CITY
For a generation almost nobody shopped downtown. Then came Faneuil Hall Marketplace in Boston and Harborplace in Baltimore. Now, in cities all across the country, downtowns are coming back to life, revived in many cases by ambitious new retail developments.
(Cover: Sundance Square, Fort Worth, Tex.)

98—PRODUCTS '84
Expecting a good year for housing, building supply manufacturers have introduced a big batch of exciting, new products.

111—KITCHENS AND BATHS
No matter how much housing changes one thing seems to stay the same: Kitchens and baths are important. But kitchen and bath design is changing, a point proven by a round-table discussion among leading builders, architects and designers.

118—GROUND BREAKERS
Introducing high-priced contemporary condos in the tradition-bound Richmond, Va., market was a big risk for Swift Creek Construction Company. But, thanks to careful research, good design and aggressive marketing, it paid off.

In the Wake of a Downward Trend

Michael Sumichrast
NAHB Chief Economist

Last year housing expenditures hit a record $120 billion. That was a whopping 70 percent increase from the depressed level of $74.8 billion in 1982.

The increase in residential construction buoyed the whole construction sector, which showed a 15 percent increase in the value of all buildings put in place, even though private nonresidential building expenditures actually dropped $5 billion (to $60 billion) last year and public construction expenditures dropped almost $4 billion (to $51.4 billion).

Don't expect housing to sustain the whole construction sector again this year. At best, housing starts will be slightly higher than the 1.7 million new units started last year, but increases in total expenditures will not match the $42 billion increase registered in 1983.

What does all of this mean?

For one thing, it means that national economic growth will slow down. Estimates of growth during the last quarter of 1983, about 4.5 percent, are decidedly lower than figures for the two previous quarters: 9.7 percent for the first quarter and 7.6 for the second.

However, what is of greater concern is the trend toward lower expenditures for many types of construction.

For example, over the last five years expenditures for water and sewer have declined sharply. Sewer expenditures peaked during the 1978-79 period. Last year we spent $2.2 billion less for sewers than we did five years ago. In constant dollars (less inflation), the decline was nearly twice that.

During the same period expenditures for new water facilities dropped 22 percent. Part of the decline, but not all of it, is tied to the slowdown in housing; the larger part follows from a slowdown in public contributions to sewer and water. The burden has been shifted to builders and developers.

If this continues, it not only will affect the supply of finished lots; it also will increase their cost, because municipalities can obtain long-term funds at cheaper rates than private developers.

Another important shift has been the decline in expenditures for industrial construction. Expenditures for factories were down 21 percent last year. Over the last 10 years, factory expenditures have increased by only 68 percent, compared with 117 percent for all nonresidential construction and 96 percent for residential construction. Somewhere, sometime we must start building additional industrial facilities.

While factory construction has declined, the production of office space has shown a dramatic increase. But even that's not entirely good news.

The office market is generally overbuilt. No wonder. In current dollars, office construction increased from an annual rate of $5 to $6 billion in the mid-1970s to $13.3 billion in 1980, $17.5 billion in 1981 and up to $23 billion in 1982. Last year it was still a very high $21.4 billion. Currently office construction is outpacing industrial construction by 2 to 1.

The question is: How long can this trend continue and what are its implications?

When I asked a major drywall manufacturer whether or not the company planned to increase capacity (there is a shortage of drywall on the East Coast and in the South), his answer was: "No!"

Maybe this isn't the best example, but this industry is operating at nearly 100 percent capacity, and there is a clear need for more product but no plans to expand.

Most other industries aren't so strapped—total industrial utilization was at about 80 percent last November.

Nonetheless, last year we spent a meager 4 percent on private industrial construction, the lowest share of all construction in 11 years. Evidently the country's counting on sustaining economic growth by expanding service industries, communications and the computer industries. But there are limits to that kind of growth. We may be able to sell computers to other countries, but service industries are essentially domestic. They create little to trade with other nations and no goods to consume.

In the current recovery the lack of business investment and the lack of growth of residential construction will mean considerably lower economic growth and a potentially difficult political situation for President Reagan in the November election.

Of course, lower interest rates could change all this. If all rates dropped 2 percentage points and were available at less than 12 percent, we might build almost 2 million housing units this year. At that point even drywall manufacturers might reconsider and build some new plants.

PRIVATE NONRESIDENTIAL AND RESIDENTIAL BUILDING EXPENDITURES
(constant dollars, in millions)

	1978	1979	1980	1981	1982	October 1983
Nonresidential						
Industrial	$ 9.7	$11.4	$ 9.4	$11.0	$11.1	$ 6.7
Office	5.8	7.2	9.0	11.3	14.8	13.8
Commercial	10.7	11.8	11.2	10.9	9.1	9.9
Residential						
1 unit	54.2	46.3	31.9	28.7	22.5	42.0
2 or more units	11.7	13.6	12.2	11.8	10.3	15.8

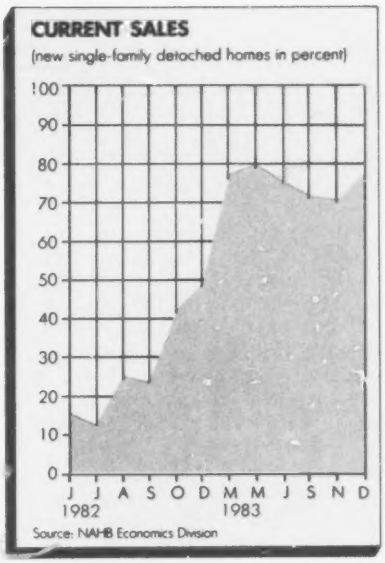
CHANGE IN EXPENDITURES 1978-1983
(in percent)

Nonresidential		Residential (new housing units)	
Industrial	–31%	1 unit	–23%
Office	138	2 or more units	35
Commercial	–8		

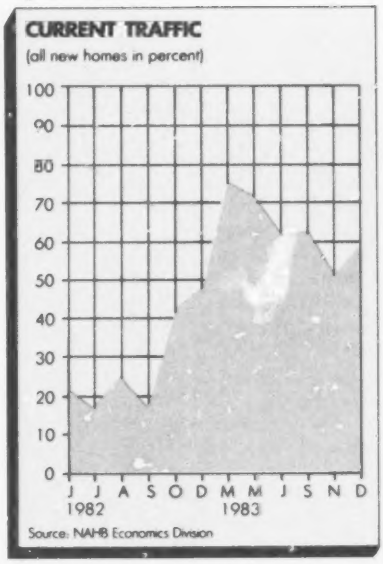
Source: Bureau of the Census

OUTLOOK

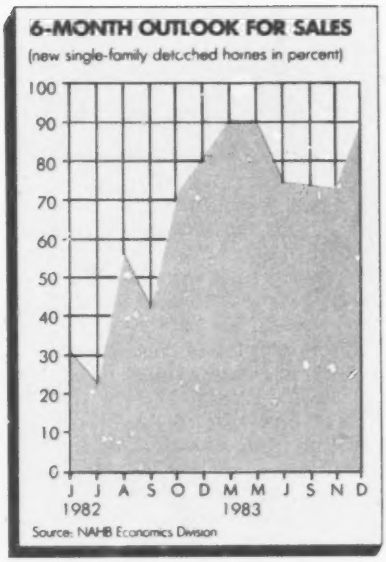
PERFORMANCE POLL: a periodic survey of builders



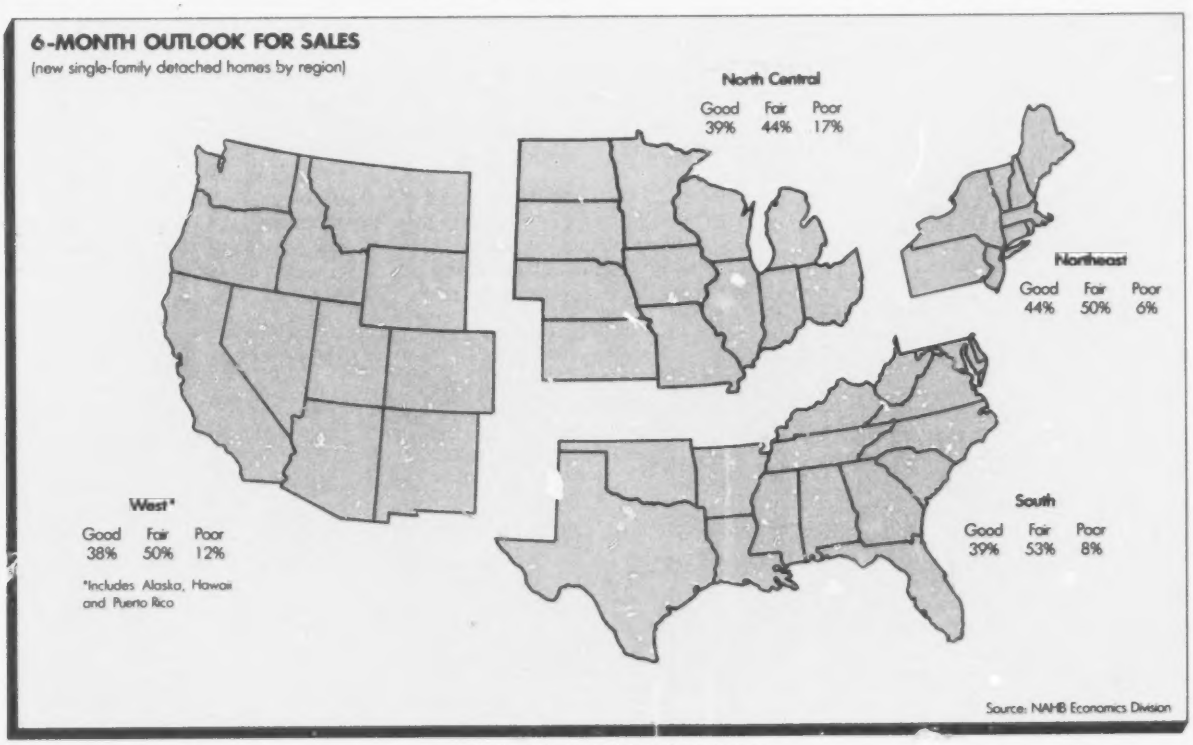
After declining for three months, the percentage of builders reporting strong sales rose sharply in December to 77%.



Traffic has picked up substantially for most builders. That reverses a downward trend that began in the middle of last year.



Optimism is mounting. Nine of 10 builders expect sales to be fair to excellent during the next six months. A month ago only 7 in 10 did.



Sales expectations are high in every part of the country, even in the long-depressed North Central region.

OUTLOOK

NOTES

MORTGAGE REVENUE BONDS BURGEON

Securities Data Company, Inc., a New York-based research firm, reports that $11.4 billion worth of single-family mortgage revenue bonds were issued last year. That was nearly 43% more than the $8 billion issued in 1982. Some of the increase was due to a flurry of activity late in the year just before authority to issue the bonds ran out on December 31. The amount of multifamily mortgage revenue bonds issued in 1983 jumped 68% to $4.2 billion from $2.5 billion issued the year before. Single-family mortgage revenue bonds financed about 220,000 units last year, including roughly 90,000 new units, or nearly 15% of all single-family homes sold, according to NAHB.

LOAN LIMITS INCREASE

The size of home loans that can be purchased by Fannie Mae and Freddie Mac went up last month. Loan limits increased to $114,000 from $108,300 for single-family mortgages, to $145,800 from $138,500 for two-family units, to $176,100 from $167,200 for three-family units, and to $218,900 from $207,900 for four-family units. There was no change in multifamily loan limits.

INVENTORY UNCHANGED

There were 313,000 new houses for sale at the end of November. That represented a 6-month supply, about the same as the month before.

REGIONAL SALES UNEVEN

The North Central region showed the only big gain in new single-family home sales in November; sales there jumped 30% to an annual rate of 87,000. Sales increased 2% in the West, stayed the same in the Northeast and fell 5.7% in the South.

RESALES STEADY

Sales of existing single-family houses increased slightly—less than 1%—in November to an annual rate of 2.63 million units, the National Association of Realtors reported. Existing home prices rose 0.7% in November to a median of $70,300. November prices were 3.8% higher than a year earlier.

CALIFORNIA RECOVERY SLOW

The California housing market will recover more slowly than the rest of the nation due to higher home prices, which remain 50% above the national average. This is the forecast of leading economists who met recently at the Real Estate Roundtable Meeting in Los Angeles. They predict starts in California will increase no more than 15% this year to 175,000 units at most.

NEAR-RECORD CONSTRUCTION VOLUME

New construction contracts totaled $15.4 billion in November, up 4% from October, bringing 1983 building activity close to the highest annual volumes on record, reported the F. W. Dodge Division of McGraw-Hill Information Systems. Although residential building far outdistanced other construction for most of the year, November's 4% gain was due to a 17% increase in commercial and industrial building contracts. The value of residential construction declined 1% because of a sag in single-family building. Nearly all of November's gain occurred in the Northeast where the value of construction contracts rose 14%.

S&Ls LEND $125 BILLION

S&Ls loaned a record $125 billion in home mortgages last year, according to the U.S. League of Savings Institutions. That compares with $54 billion in 1982 and the previous high of $108 billion loaned in 1978. S&Ls took in $1.7 billion in net new savings in November, reported the Federal Home Loan Bank Board. That was down from $3.4 billion the month before but in line with the normal seasonal drop-off. S&Ls have experienced savings inflows since December 1982 when deregulation permitted them to pay market rates for deposits.

TEXAS IS HOT

Dallas-Fort Worth will be the hottest housing market in the country this year for the second year in a row despite a substantial drop in starts there, predicted Chicago Title Insurance Co. Houston will run a close second, followed by Atlanta, Phoenix, Los Angeles and Denver. Nine of the top 10 states in new home construction will be located in the Sunbelt. The exception is Pennsylvania, number 10.

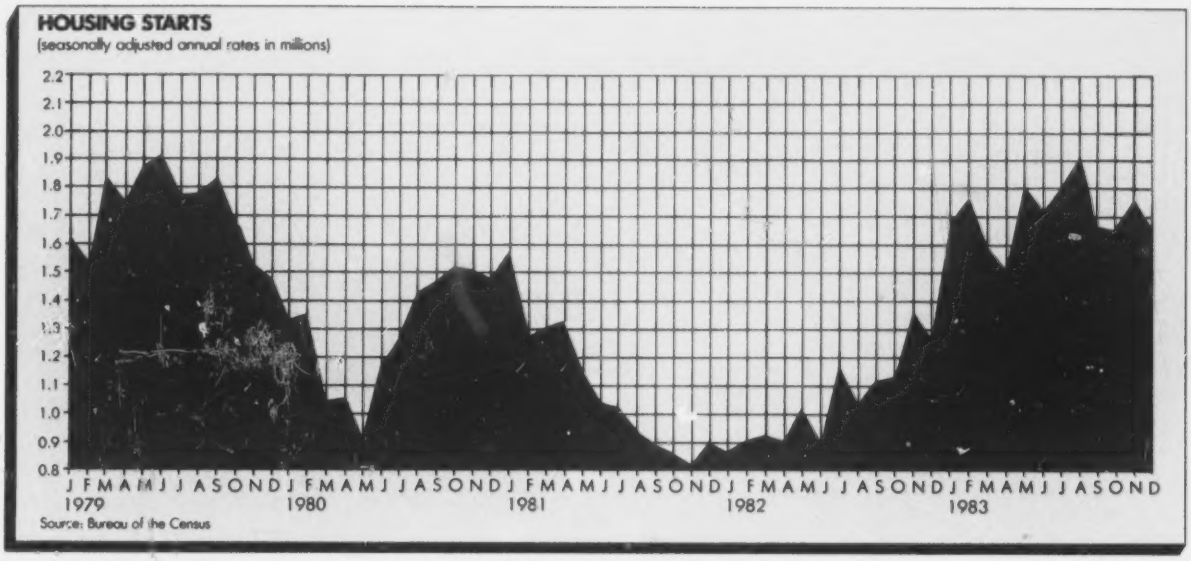
SYNDICATIONS THRIVE

The public real estate syndication industry has enjoyed dynamic growth over the last two years. Of the $12 billion in capital raised by syndications from 1970 through 1983, two-thirds was contributed in 1982 and 1983, according to Questor Information Services, San Francisco. Apartments continue to be the most popular type of real estate with syndicated partnerships (50%) followed by office buildings and shopping centers (18% each).

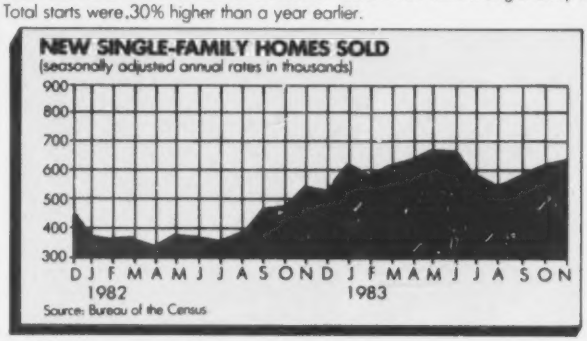
LOW-INCOME BUYERS FINANCED

The Federal National Mortgage Association has made $100 million available to home buyers through a network of predominantly black real estate brokers in 21 cities. The adjustable rate loans will finance about 2,000 homes for low-to-moderate income families largely in urban areas. The commitment to members of the National Association of Real Estate Brokers, known as "Realtists," marks the first time Fannie Mae has funneled a commitment through a real estate sales trade group.

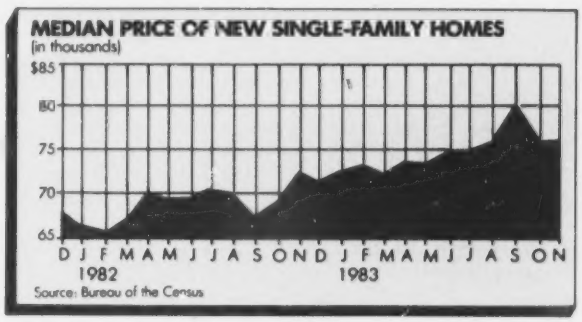
OUTLOOK



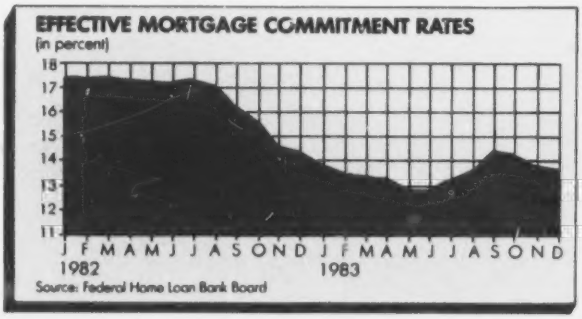
Starts decline 5% in December to an annual rate of 1.67 million. Single-family starts fell 11.4% to 972,000, but multifamily starts rose 5.6% to 695,000. Total starts were 30% higher than a year earlier.



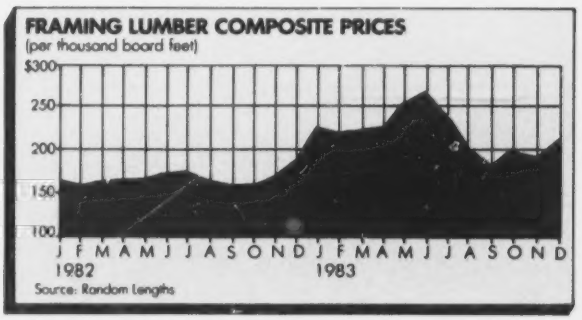
Sales remained about the same in November at an annual rate of 638,000 compared with the upwardly revised October rate of 635,000.


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)
$85
80
75
70
65
D J F M A M J J A S O N D J F M A M J J A S O N
1982
1983
Source: Bureau of the Census

The median price increased a slight $200 in November to $75,900. The November price was only 3.3% higher than a year earlier.



For the third straight month mortgage rates edged downward in December. Fixed rates declined 4 basis points to 13.88%; uncapped adjustable rates dipped 13 basis points to 12.38%.



Lumber prices climbed 7.2% in December to $209 per thousand board feet. The December price was the highest since July and 9.4% higher than a year earlier.